

Message Text

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PAGE 01 MANILA 10410 160733Z

13

ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-13 H-02 L-03 PRS-01

PA-01 SP-02 USIA-06 AID-05 EB-07 NSC-05 CIEP-01 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 /105 W

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USADB

PASS TREASURY FOR ZINMAN

E.O. 11652: ADS, DECLAS 1/16/77

TAGS: EAID, EFIN

SUBJECT: ADB LENDING RATE AND ADJUSTMENT SYSTEM

REF: (A) TREASURY 76-89, (B) MANILA 9784

1. RE PARA 1 REF A, USADB BELIEVES POSSIBILITY OF INCREASING 25 BASIS POINTS SPREAD DOES NOT APPEAR TO BE HIGH ESPECIALLY DURING SCHEDULED BOARD DISCUSSION ON 29 JULY 1976 OF ADB DOC. R76-76, TITLED REVIEW OF BANK'S LENDING RATE AND COMMITMENT CHARGE. REASON IS THAT EXTENSIVE BOARD DISCUSSIONS HAVE CONCENTRATED ON REDUCTION OF TRADITIONAL 25 BASIS POINT SPREAD BY REDUCING BORROWING COST DIFFERENTIAL WITH IBRD. IN THIS REGARD, USADB UNDERSTAND PRELIMINARY OFFER BY U.S. UNDERWRITER INDICATES POSSIBILITY OF REDUCING DIFFERENTIAL BY 12.5 BASIS POINTS TO 37.5 BASIS POINT DIFFERENTIAL FROM USUAL 50 BASIS POINTS FOR COMPARABLE IBRD ISSUE. IF BORROWING COSTS DIFFERENTIAL CAN BE REDUCED, BOARD TENDENCY WOULD BE TO REDUCE 25 BASIS POINT SPREAD, NOT INCREASE

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PAGE 02 MANILA 10410 160733Z

IT. HOWEVER, LENDING RATE SPREAD WILL BE ABOUT

29 BASIS POINTS AFTER ADJUSTMENT FOR HIGHER IBRD COMMITMENT CHARGE AND INCREASED COMMITMENT CHARGE BEING PROPOSED BY ADB.

2. RE PARA 2 REFTTEL A, USADB AGREES DIRECT AUTOMATIC LINK TO QUARTERLY IBRD LENDING RATE WOULD BE PREFERRED ADJUSTMENT SYSTEM WHICH COULD INCLUDE SEPARATE ADB PERIODIC REVIEW OF 25 BASIS POINT DIFFERENTIAL AND BORROWING AND OPERATING COST ELEMENTS. HOWEVER, BOARD OPINION APPEARS TO BE STRONGLY OPPOSED TO DIRECT AUTOMATIC LINK BECAUSE IT FAILS TO CONSIDER ADB'S OWN FINANCIAL POSITION.

3. RE PARAS. 3 AND 4, G
F. A, INFORMAL DISCUSSION ON LAGGING DETERMINATION OF ADB LENDING RATE BY ONE MONTH (NOT PART OF ADB DOC. R76-76) WAS COMPROMISE BETWEEN DIRECTORS (AND ADB PRESIDENT ALSO) WHO OPPOSED ESTABLISHMENT OF ADB SEMI-AUTOMATIC FORMULA AND DIRECTORS WHO OPPOSED DIRECT LINK TO IBRD QUARTERLY RATE. TREASURY SUGGESTION OF 5 BASIS POINT MARGIN APPLIED AUTOMATICALLY TO IBRD RATE COULD HAVE BEEN ANOTHER COMPROMISE. HOWEVER, IN MEETING REPORTED IN REF B, U.S. ALTERNATE DIRECTOR PROPOSED POSSIBLE COMPROMISE OF SIMULTANEOUS LINK WITH IBRD RATE TOGETHER WITH 5 BASIS POINT MARGIN ABOVE AND BELOW 1 OCTOBER 1976 IBRD QUARTERLY RATE BUT DID NOT RECEIVE SUPPORT BECAUSE (A) FIVE BASIS POINTS WAS NOT CONSIDERED SIGNIFICANT ENOUGH TO WARRANT RATE CHANGE AND (B) SIMULTANEOUS LINK TO IBRD RATE WAS UNACCEPTABLE.

4. ADB DOC. R76-76, SCHEDULED TO BE CONSIDERED BY BOARD ON 29 JULY 1976, REJECTS USE OF SEMI-AUTOMATIC FORMULA FOR ADB. IN CONSEQUENCE, ADB PRESIDENT ONLY RECOMMENDS NEW LENDING RATE 25 BASIS POINTS ABOVE 1 JULY 1976 IBRD RATE TO BE EFFECTIVE TO END OF 1976 AFTER WHICH BANK WILL REVIEW LENDING RATE POLICY IN JANUARY. IF APPROVED, THIS PROPOSAL WOULD POSTPONE DISCUSSION OF LENDING RATE ADJUSTMENT SYSTEM TO JANUARY 1977 WHEN ADB WILL HAVE HAD OPPORTUNITY TO LIMITED OFFICIAL USE

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PAGE 03 MANILA 10410 160733Z

LEARN OF AND CONSIDER IBRD EXPERIENCE WITH SEMI-AUTOMATIC FORMULA AND TO STUDY RESULTS OF IBRD COST AND METHODOLOGICAL STUDIES TO BE COMPLETED LATER THIS YEAR.

5. USADB SUGGESTS THAT FIRST PRIORITY SHOULD BE TO INCREASE AND ESTABLISH ADB LENDING RATE 25 BASIS POINTS OVER IBRD LENDING RATE AS QUICKLY AS POSSIBLE

AND THAT REASONABLE COMPROMISES SUCH AS 5 OR EVEN 10
BASIS POINT MARGIN APPLICABLE ONLY TO 1 OCTOBER 1976
IBRD QUARTERLY RATE CAN BE ACCEPTED IF NEEDED IN
IN ORDER TO OBTAIN OR MAINTAIN RELATIVELY SMALL MARGIN
OF SUPPORT REQUIRED TO ADOPT RATE INCREASE
PROPOSAL AT THIS TIME.
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